

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-10 L-03
NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06 AID-05
IGA-02 DOE-11 SOE-02 /081 W
-----003127 232002Z /43

R 231201Z FEB 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 4830
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION USNATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
USNMR SHAPE BRUSSELS BEL
COMUSFORAZ

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 1370

E.O. 11652: GDS
TAGS: PINT PO
SUBJECT: THE AGREEMENT THAT NEVER WAS

REF: (A) LISBON 0373 (DTG 161611Z JAN 78)
(B) LISBON 0345 (DTG 131827Z JAN 78)

SUMMARY: THE PUBLISHED TEXT OF THE UNSIGNED PS/PCP AGREEMENT
UNDERScores THE GAP SEPARATING THE TWO PARTIES. THE COMMUNISTS
FROM THE OUTSET SOUGHT CONCESSIONS WHICH WOULD HAVE BEEN
INCOMPATIBLE WITH THE PS/CDS FORMULA FOR GOVERNMENT. SOME,
INCLUDING PCP CHIEF NEGOTIATOR CARLOS BRITO, MAY HAVE THOUGHT
AN AGREEMENT WAS POSSIBLE. CUNHAL PROBABLY NEVER DID.
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END SUMMARY.

1. BEGIN UNCLASSIFIED. LISBON WEEKLY "O JORNAL" ON
FEB 17 PUBLISHED THE TEXT OF THE PROPOSED PS/PCP
UNDERSTANDING REJECTED BY THE COMMUNISTS ON JAN 13 (REF A).
HIGHLIGHTS INCLUDED:

A. OBJECTIVES: THE AGREEMENT SHOULD PROMOTE ECONOMIC RECOVERY, SOCIAL AND POLITICAL STABILITY, AND THE CONSOLIDATION OF DEMOCRATIC INSTITUTIONS. A POLICY TO ACCOMPLISH THESE ENDS MUST BE BASED ON:

- RESPECT FOR THE CONSTITUTION.
 - STRENGTHENING OF DEMOCRATIC INSTITUTIONS.
 - GUARANTEEING OF RIGHTS AND LIBERTIES.
 - RESPECT FOR EXISTING ECONOMIC FORMATIONS.
- TO CARRY OUT THIS POLICY, IN THE SHORT-RUN A SUBSTANTIAL REDUCTION IN THE BALANCE OF PAYMENTS DEFICIT WOULD BE ESSENTIAL.
- IN THE MEDIUM TERM, ECONOMIC DEVELOPMENT SHOULD PERMIT:
- ECONOMIC EQUILIBRIUM NECESSARY FOR GROWTH.
 - GRADUAL REDUCTION OF INEQUALITIES.
 - CORRECTION OF REGIONAL DISTORTIONS.
 - GREATER SATISFACTION OF BASIC NECESSITIES OF THE POPULATION.

B. ECONOMIC AND FINANCIAL POLICY:: ECONOMIC POLICY MUST BE BASED UPON:

- MAXIMUM UTILIZATION OF DOMESTIC RESOURCES.
 - INCREASED PRODUCTION.
 - REDUCTION OF NONESSENTIAL IMPORTS.
 - RECOGNITION OF THE NECESSITY OF NEGOTIATIONS WITH THE INTERNATIONAL MONETARY FUND AS THE BASIS FOR OBTAINING ESSENTIAL FOREIGN LOANS.
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THE EMERGENCY ECONOMIC PROGRAM WILL HAVE AS ITS OBJECTIVES

- REDUCTION OF THE CURRENT ACCOUNT DEFICIT TO DOLS 800 MILLION.
 - REDUCTION OF THE INFLATION RATE TO APPROXIMATELY 20 PERCENT.
 - CREATION OF JOBS AND STIMULATION OF PRODUCTION TO EASE THE UNEMPLOYMENT PROBLEM.
- THESE OBJECTIVES WILL REQUIRE A MORE RESTRICTIVE MONETARY AND BUDGETARY POLICY BASED UPON:
- A BALANCED CURRENT ACCOUNT BUDGET.
 - THE REDUCTION OF THE OVERALL DEFICIT.
 - IMPLEMENTATION OF A TWENTY PERCENT GUIDELINE FOR SALARY INCREASES.

C. PUBLIC AND PRIVATE SECTOR: THE TWO PARTIES CONSIDER INDISPENSABLE:

- PRESERVATION AND CONSOLIDATION OF PUBLIC SECTOR ECONOMIC FORMATIONS.
- SUPPORT FOR COOPERATIVES.
- GUARANTEEING THE PRIVATE SECTOR THE CONDITIONS INDISPENSABLE FOR ITS FUNCTIONING.

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 1370

WITH REGARD TO NATIONALIZATIONS, THE TWO PARTIES REAFFIRM
SUPPORT FOR THOSE CONSTITUTIONAL PROVISIONS DECLARING
THE IRREVERSIBILITY OF NATIONALIZATIONS AND THE INTEGRATION
INTO THE PRIVATE SECTOR OF SMALL AND MEDIUM ENTERPRISES
NATIONALIZED INDIRECTLY THROUGH THE BANKKKG SYSTEM.

D. AGRARIAN REFORM: IN APPLYING THE LAW, THE TWO PARTIES
WILL EXERCISE THEIR INFLUENCE TO ENSURE:
--DEMOCRATIC LEGALITY IS RESPECTED, NEW METHODS OF LAND
EXPLOITATION ARE CONSOLIDATED, AND PRODUCTION IS INCREASED.
--THE PROMOTION OF A CLIMATE OF DEMOCRATIC CORDIALITY IN
THE AGRARIAN REFORM ZONE.
--THE CONTINUATION OF CURRENT OPERATIONS WITH A VIEW TO EVENTUAL
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COMPLETION OF EXPROPRIATIONS IN THE AGRARIAN REFORM ZONE.
CREDIT POLICY WILL BE REVIEWED TAKING INTO ACCOUNT:
--EQUAL ACCESS TO CREDIT FOR ENTERPRISES FROM ALL REGIONS.
--THE PRESENTATION OF ACCOUNTS WHEN PUBLIC FUNDS ARE USED.
--THE CONCESSION OF CREDITS WILL SEEK TO MAINTAIN THE
VIABILITY OF THE VARIOUS TYPES OF AGRICULTURAL ENTERPRISES.

E. CONSULTATION MECHANISMS: THE TWO PARTIES AGREE TO A
SYSTEM OF REGULAR PARLIAMENTARY CONSULTATIONS, INCLUDING
APPROPRIATE JOINT CONSIDERATION OF LEGISLATION AND QUESTIONS
RELATING TO THE ORGANIZATION AND FUNCTIONING OF THE
LEGISLATURE. OUTSIDE OF PARLIAMENT, THE TWO PARTIES AGREE
TO A SYSTEM OF REGULAR CONSULTATIONS AND TO AVOID SITUATIONS
AND ATTITUDES WHICH MIGHT AFFECT THE CLIMATE OF MUTUAL
RESPECT. END UNCLASSIFIED.

2. COMMENT: IN RETROSPECT, HOWEVER, IT IS EASY TO SEE WHY THE
PS/PCP AGREEMENT WAS NEVER SIGNED. CDS FRONTAL OPPOSITION
WAS A MAJOR FACTOR (REF B). BUT, MORE TO THE POINT, THE
GAP SEPARATING THE TWO PARTIES WAS SIMPLY TOO WIDE. THE
VERSION PRESENTED TO THE PCP FOR SIGNATURE WAS UNACCEPTABLE
TO THE COMMUNISTS BECAUSE:
--IT REQUIRED THEM TO SHARE RESPONSIBILITY FOR AN IMF-
SANCTIONED AUSTERITY PROGRAM;
--IT DID NOT GO FAR ENOUGH IN GUARANTEEING THE PRIMACY
OF THE PUBLIC SECTOR.
--IT FAILED TO PROVIDE SUFFICIENT GUARANTEES THAT THE
STATUS QUO WOULD BE PRESERVED IN THE ALENTEJO.
IN A BROADER SENSE, THE FAILURE OF THE PS AND PCP TO COME
TO TERMS WAS THE LOGICAL CONSEQUENCE OF THE STRATEGY AND
NEGOTIATING OBJECTIVES OF EACH PARTY.
--THE PRIMARY PS GOAL WAS PS/CDS AGREEMENT ON A FORMULA FOR
GOVERNMENT; A PS/PCP UNDERSTANDING WAS A DECIDEDLY
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SECONDARY CONSIDERATION. SOCIALIST NEGOTIATORS WERE
CONVINCED THAT THE COMMUNISTS WOULD SIGN VIRTUALLY ANY
DOCUMENT THRUST BEFORE THEM.
--THE COMMUNISTS FROM THE OUTSET, SOUGHT CONCESSIONS
WHICH WOULD HAVE BEEN INCOMPATIBLE WITH A PS/CDS AGREEMENT.
IT WAS IMPORTANT, HOWEVER, FOR THE PCP TO GO THE FULL
DISTANCE IN TALKS WITH THE SOCIALISTS. BUT THE
COMMUNISTS, THEREBY IMPLYING THEIR WILLINGNESS TO
ACCEPT AN IMF PROGRAM, MAY HAVE GIVEN THE SOCIALISTS A
SLIGHT PSYCHOLOGICAL ADVANTAGE. SOME IN BOTH PARTIES,
INCLUDING PCP CHIEF NEGOTIATOR CARLOS BRITO, MAY HAVE
THOUGHT AN AGREEMENT WAS POSSIBLE. CUNHAL PROBABLY NEVER
DID.
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